

**SPCA INTERNATIONAL, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

SPCA INTERNATIONAL, INC.

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
SPCA International, Inc.  
New York, New York

**Report on the Financial Statements**

We have audited the accompanying financial statements of SPCA International, Inc., which comprise the statements of financial position at December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SPCA International, Inc. at December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 2 to the financial statements, SPCA International, Inc. adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14. Our opinion is not modified with respect to this matter.

*Grassi & Co., CPAs, P.C.*

GRASSI & CO., CPAs, P.C.

New York, New York  
June 10, 2019

SPCA INTERNATIONAL, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,020,511	\$ 1,009,892
Accounts receivable	53,883	77,622
Prepaid expenses and other assets	57,129	40,685
Property and equipment, net (Note 4)	<u>34,986</u>	<u>42,825</u>
 TOTAL ASSETS	 <u>\$ 1,166,509</u>	 <u>\$ 1,171,024</u>
 <u>LIABILITIES AND NET ASSETS (DEFICIT)</u>		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 1,224,537</u>	<u>\$ 1,430,193</u>
 TOTAL LIABILITIES	 <u>1,224,537</u>	 <u>1,430,193</u>
Net assets (deficit):		
Without donor restrictions	(322,896)	(442,936)
With donor restrictions (Note 6)	<u>264,868</u>	<u>183,767</u>
 TOTAL NET ASSETS (DEFICIT)	 <u>(58,028)</u>	 <u>(259,169)</u>
 TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	 <u>\$ 1,166,509</u>	 <u>\$ 1,171,024</u>

The accompanying notes are an integral part of these financial statements.

SPCA INTERNATIONAL, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING SUPPORT AND REVENUE:</b>						
Contributions and grants	\$ 8,286,266	\$ 1,358,357	\$ 9,644,623	\$ 6,613,680	\$ 1,167,835	\$ 7,781,515
In-kind contributions (Note 5)	8,018,935	-	8,018,935	7,669,327	-	7,669,327
Bequests and legacies	360,916	-	360,916	671,935	-	671,935
Other income	7,994	-	7,994	1,844	-	1,844
Net assets released from restrictions	1,277,256	(1,277,256)	-	1,063,432	(1,063,432)	-
<b>Total Operating Support and Revenue</b>	<b>17,951,367</b>	<b>81,101</b>	<b>18,032,468</b>	<b>16,020,218</b>	<b>104,403</b>	<b>16,124,621</b>
<b>OPERATING EXPENSES:</b>						
Program services	12,228,067	-	12,228,067	10,922,418	-	10,922,418
Supporting services:						
Management and general	525,318	-	525,318	505,056	-	505,056
Fundraising	5,077,942	-	5,077,942	3,723,523	-	3,723,523
<b>Total Operating Expenses</b>	<b>17,831,327</b>	<b>-</b>	<b>17,831,327</b>	<b>15,150,997</b>	<b>-</b>	<b>15,150,997</b>
<b>CHANGE IN NET ASSETS</b>	<b>120,040</b>	<b>81,101</b>	<b>201,141</b>	<b>869,221</b>	<b>104,403</b>	<b>973,624</b>
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	<b>(442,936)</b>	<b>183,767</b>	<b>(259,169)</b>	<b>(1,312,157)</b>	<b>79,364</b>	<b>(1,232,793)</b>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<b>\$ (322,896)</b>	<b>\$ 264,868</b>	<b>\$ (58,028)</b>	<b>\$ (442,936)</b>	<b>\$ 183,767</b>	<b>\$ (259,169)</b>

The accompanying notes are an integral part of these financial statements.

SPCA INTERNATIONAL, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll	\$ 161,968	\$ 124,137	\$ 143,294	\$ 429,399
Payroll taxes and benefits	32,823	25,157	29,039	87,019
Program expenses and supplies	269,748	-	-	269,748
In-kind donation - veterinary supply aid	7,548,581	-	-	7,548,581
In-kind donation - marketing	-	-	470,354	470,354
Marketing and media costs	2,743,419	-	4,421,326	7,164,745
Shipping and processing costs	382,723	-	-	382,723
Professional fees	133,815	148,320	-	282,135
OMP grants	240,229	-	-	240,229
Shelter grants	425,200	-	-	425,200
Travel and transportation	159,564	3,792	-	163,356
Office and other expenses	28,784	95,774	-	124,558
Bank fees	44,641	88,210	-	132,851
Occupancy	25,329	37,994	-	63,323
Operational expenses	14,086	-	12,639	26,725
Depreciation and amortization	9,671	1,934	1,290	12,895
Insurance	7,486	-	-	7,486
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total Costs	<u>\$ 12,228,067</u>	<u>\$ 525,318</u>	<u>\$ 5,077,942</u>	<u>\$ 17,831,327</u>

The accompanying notes are an integral part of these financial statements.

SPCA INTERNATIONAL, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll	\$ 139,066	\$ 98,632	\$ 126,485	\$ 364,183
Payroll taxes and benefits	27,166	19,267	24,708	71,141
Program expenses and supplies	381,333	-	-	381,333
In-kind donation - veterinary supply aid	7,192,142	-	-	7,192,142
In-kind donation - marketing	-	-	477,185	477,185
Marketing and media costs	1,875,135	-	3,081,433	4,956,568
Shipping and processing costs	356,321	-	-	356,321
Professional fees	120,458	187,632	-	308,090
OMP grants	220,407	-	-	220,407
Shelter grants	364,490	-	-	364,490
Travel and transportation	133,051	13,177	-	146,228
Office and other expenses	17,369	82,533	-	99,902
Bank fees	45,308	64,941	-	110,249
Occupancy	24,204	36,306	-	60,510
Operational expenses	11,640	-	12,000	23,640
Depreciation and amortization	12,839	2,568	1,712	17,119
Insurance	1,489	-	-	1,489
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Costs	<u>\$ 10,922,418</u>	<u>\$ 505,056</u>	<u>\$ 3,723,523</u>	<u>\$ 15,150,997</u>

The accompanying notes are an integral part of these financial statements.



SPCA INTERNATIONAL, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 201,141	\$ 973,624
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	12,895	17,119
Changes in assets (increase) decrease:		
Accounts receivable	23,739	(77,622)
Prepaid expenses and other assets	(16,444)	(6,551)
Changes in liabilities (decrease):		
Accounts payable and accrued expenses	<u>(205,656)</u>	<u>(374,133)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>15,675</u>	<u>532,437</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(5,056)</u>	<u>(7,448)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(5,056)</u>	<u>(7,448)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,619	524,989
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,009,892</u>	<u>484,903</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,020,511</u>	<u>\$ 1,009,892</u>

The accompanying notes are an integral part of these financial statements.

SPCA INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

Note 1 - Nature of Organization

SPCA International, Inc. (the "SPCAI") is a not-for-profit organization incorporated in the State of Delaware in May 2006. The SPCAI's purpose is to advance the safety and well-being of animals through education, outreach programs, and to support animal shelters in need. The primary sources of support are contributions and grants, in-kind contributions, and bequests and legacies. The SPCAI is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Operation Military Pets

The SPCAI has helped military families' pets through the Operation Military Pets program since 2013. When military families are ordered to a new base in the U.S. or around the world, moving bills can be substantial. The military pays for many moving costs, but they do not help relocate their beloved pets. The cost for pet transportation can be significant. Military families are being torn apart due to financial constraints. All over the U.S., animal shelters near military bases report high surrender rates when military families cannot afford to relocate their dogs or cats. To help keep military families together and animals out of shelters, Operation Military Pets provides financial assistance to military families for pet relocation costs. Total expenses for the years ended December 31, 2018 and 2017 were \$240,229 and \$220,407, respectively.

Shelter and Emergency Grants

The SPCAI gives direct support by awarding shelter grants to many animal organizations in need of assistance throughout the U.S. and all over the world. These much needed funds go toward helping many shelters improve their facility, fund basic needs, support spay and neuter initiatives and ultimately reducing euthanasia rates. Animal shelters always try to plan for an influx of animals, an emergency situation or an unforeseen expense, but many times organizations become overwhelmed. In light of this, the SPCAI also distributes emergency grants to shelters when they need it the most, in urgent crisis situations. Total expenses for the years ended December 31, 2018 and 2017 were \$970,468 and \$849,349, respectively.

Global Animal Veterinary Assistance

Each year, the SPCAI distributes critical veterinary medical supplies to animal shelters throughout the world. As a result, organizations in developing countries have been able to treat more sick and injured animals. These donations, along with financial grants, have allowed organizations to provide successful spay and neuter events throughout the year. Through this program, the SPCAI has distributed millions of dollars in veterinary medical supplies to shelters on almost every continent. Total expenses for the years ended December 31, 2018 and 2017 were \$7,548,581 and \$7,192,142, respectively.

Operation Baghdad Pups Worldwide

U.S. troops deployed around the world befriend local animals as a way to cope with the emotional hardships they endure every day far from home and loved ones. These animals, often called military mascots or patriot pets, not only help our heroes while stationed overseas, but also help them readjust to life when they return home. This highly successful and celebrated program has been reuniting U.S. service members with their companions since 2008. Operation Baghdad Pups provides veterinary care and coordinates complicated logistics and transportation requirements in order to reunite these beloved pets with their service men and women back in the U.S. Total expenses for the years ended December 31, 2018 and 2017 were \$725,370 and \$647,558, respectively.

SPCA INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

Note 1 - Nature of Organization (cont'd.)

Education Programs

The SPCAI's education outreach reaches hundreds of thousands of pet parents and animal activists every year. Both online and through other media resources, the SPCAI serves as an information and referral resource for animal lovers throughout the world. Skilled staff research questions, find answers, offer advice and connect those requesting assistance. Every year, the SPCAI provides support and help to thousands of individuals in need of animal assistance. The SPCAI's educational programs reduce animal suffering and abuse by raising awareness and facilitating action among like-minded advocates. Total expenses for the years ended December 31, 2018 and 2017 were \$2,743,419 and \$1,875,135, respectively.

Management's Plans and Intentions and Consideration of Ability to Continue as a Going Concern

At December 31, 2018, the SPCAI had a net working capital deficit of approximately \$58,000. The SPCAI is currently implementing various initiatives, including revenue enhancement and evaluating plans to reduce operating costs, as well as attempting to renegotiate with its professional fundraiser for reduction in direct mailing costs, new program initiatives and the negotiation of the repayment of the obligation to the professional fundraiser. This is anticipated to result in increased revenues and a reduction in costs. It is believed that these plans will allow the SPCAI to achieve and maintain profitability and improve financial stability.

Management has a feasible and attainable three-year plan that projects revenue will exceed expenses within that timeframe if not sooner.

Note 2 - Summary of Significant Accounting Policies

Adoption of FASB ASU No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*

Effective January 1, 2018, SPCAI adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14. The ASU provides for changes in financial statement presentation that affect classification of net assets and presentation of expenses. It also provides for enhanced disclosures of methods used to allocate costs among functions and available resources and liquidity.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SPCA INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting the SPCAI's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At December 31, 2018 and 2017, the fair value of the SPCAI's financial instruments, including cash and cash equivalents, accounts receivable, prepaid expenses and other assets, and accounts payable and accrued expenses, approximated book value due to the short maturity of these instruments.

At December 31, 2018 and 2017, the SPCAI does not have assets or liabilities required to be measured at fair value in accordance with FASB ASC Topic 820, *Fair Value Measurement*.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with initial maturities, when acquired, of three months or less.

Property and Equipment

Property and equipment is recorded at cost. Depreciation of fixed assets is provided over the estimated useful lives of the assets of 5 years utilizing the straight-line method. Leasehold improvements are amortized over the lesser of the remaining term of the lease or the useful live of the improvement utilizing the straight-line method. Repairs and maintenance are charged to expense in the period incurred. Contributions of donated property and equipment are recorded at their fair values in the period received. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

SPCA INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Property and Equipment (cont'd.)

Depreciation of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Website	5 to 7 years
Office equipment	2 to 5 years
Automobile	6 years

Net Assets

Net assets without donor restrictions include funds having no restriction as to use or purpose imposed by donors. Net assets with donor restrictions are those whose use has been limited by donors to a specific time period or purpose.

Support and Revenue

The SPCAI reports gifts of cash, other assets and long-lived assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. In the absence of donor specification that income on donated funds is restricted, such income is reported as revenues of net assets without donor restrictions.

Contributions

Contributions are recognized as revenue when an unconditional promise to give is made and the gift is subject to reasonable valuation. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

In-Kind Contributions

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of services are recognized if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations.

SPCA INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

Note 2 - Summary of Significant Accounting Policies (cont'd.)

In-Kind Contributions (cont'd.)

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of services are recognized if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations.

The SPCAI donates veterinary medications and supplies through its Global Animal Veterinary Assistance Program, which provides critical aid to animals in shelters. These medications and supplies are distributed worldwide and are an integral part of the SPCAI's commitment and efforts to fulfill its mission. The SPCAI has contracted with an organization to administer this program, including the procurement, shipping and delivering of these supplies. The organization also provides the fair value of the donation at the date the supplies are shipped, based on the average of three valuation values for warehouse acquisition costs and average wholesale price. For the years ended December 31, 2018 and 2017, the SPCAI recognized approximately \$7.5 million and \$7.2 million of in-kind donations for medications and supplies, respectively.

The SPCAI received donated marketing and media costs of approximately \$470,000 and \$477,000 for the years ended December 31, 2018 and 2017, respectively.

Bequests and Legacies

Bequests and legacies are recognized in the period received, as there is no certainty as to the amount and the length of time or the value of the corpus of the deceased donor's estate. For the years ended December 31, 2018 and 2017, the SPCAI recorded donor bequests and legacies of approximately \$361,000 and \$672,000, respectively. Currently, the SPCAI is the named beneficiary of various legacies, but due to either a specific event, such as the passing of the donor, or the estate not being adjudicated and approved by a court for distribution, the funds or the bequest have not been recognized by the SPCAI in the current year financial statements.

Marketing and Media Costs

Marketing and media costs are expensed as incurred. Marketing and media costs approximated \$7.6 million and \$5.4 million for the years ended December 31, 2018 and 2017, respectively.

Advertising

Advertising costs are expenses as incurred.

SPCA INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the SPCAI. Those expenses include program administration, including staff and consultant time, marketing and media and fundraising. Program administration is based on the ratio value of program expenses and staff and consultant time spent on program administration and supporting services. Marketing and media and fundraising are based on the percentage of materials created attributable to program information and calls to action.

Accounting for Uncertainty in Income Taxes

The SPCAI applies the provisions pertaining to uncertain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. The SPCAI is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The SPCAI believes it is no longer subject to income tax examinations prior to 2015.

Allocated Joint Costs

The SPCAI conducted activities that included requests for contributions as well as program components and incurred joint costs. These activities included Operation Baghdad Pups and Shelter and Emergency Grants. Joint costs were allocated between program services and fundraising as follows:

	<u>2018</u>	<u>2017</u>
Program services	\$ 2,743,419	\$ 1,875,135
Fundraising	4,421,326	3,081,433
	<u>\$ 7,164,745</u>	<u>\$ 4,956,568</u>

New Accounting Pronouncements

ASU No. 2016-02

In February 2016, the FASB issues ASU No. 2016-02, *Leases (Topic 842)*. This ASU is the result of a joint project of the FASB and the International Accounting Standards Board ("IASB") to increase transparency and the comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements for U.S. GAAP and International Financial Reporting Standards ("IFRS"). The guidance in this ASU affects any entity that enters into a lease (as that term is defined in this ASU), with some specified scope exemptions. The guidance in this ASU will supersede FASB ASC Topic 840, *Leases*.

The ASU provides that lessees should recognize lease assets and lease liabilities on the balance sheet for leases previously classified as operating leases that exceed 12 months, including leases existing prior to the effective date of this ASU. It also calls for enhanced leasing arrangement disclosures.

SPCA INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

Note 2 - Summary of Significant Accounting Policies (cont'd.)

New Accounting Pronouncements (cont'd.)

ASU No. 2016-02 (cont'd.)

For nonpublic entities, the amendments of ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early application is permitted for all entities.

ASU No. 2014-09

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU is the result of a joint project of the FASB and the IASB to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards.

The ASU provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should apply the following five-step process to recognize revenue:

- Step 1: Identify the contract with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For nonpublic entities, the amendments of ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early application is permitted under certain circumstances.

The SPCAI has not yet determined if these ASUs will have a material effect on its financial statements.

Note 3 - Concentration of Credit Risk

The SPCAI maintains cash balances in several financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000 per institution. From time to time, the SPCAI's balances may exceed these limits.



SPCA INTERNATIONAL, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2018 AND 2017

Note 4 - Property and Equipment

Property and equipment, net at December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Website	\$ 131,138	\$ 131,138
Office equipment	39,844	34,788
Leasehold improvements	41,142	41,142
Automobile	34,849	34,849
	<u>246,973</u>	<u>241,917</u>
Less: Accumulated depreciation and amortization	211,987	199,092
Property and equipment, net	<u>\$ 34,986</u>	<u>\$ 42,825</u>

For the years ended December 31, 2018 and 2017, depreciation and amortization expense was \$12,895 and \$17,119, respectively.

Note 5 - In-Kind Contributions

Contributed service and goods are recorded at their estimated fair value. In-kind contributions consisted of the following for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Shelter program support - medical supplies	\$ 7,548,581	\$ 7,192,142
Marketing and media costs	470,354	477,185
	<u>\$ 8,018,935</u>	<u>\$ 7,669,327</u>

Note 6 - Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Military Program	\$ 81,153	\$ 35,921
Shelter Program	183,715	147,846
	<u>\$ 264,868</u>	<u>\$ 183,767</u>

SPCA INTERNATIONAL, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2018 AND 2017

Note 6 - Net Assets with Donor Restrictions (cont'd.)

Net assets with donor restrictions were released from restrictions in 2018 and 2017 by incurring expenses satisfying the following:

	<u>2018</u>	<u>2017</u>
Military Program	\$ 663,724	\$ 623,682
Shelter Program	613,532	439,750
	\$ 1,277,256	\$ 1,063,432

Note 7 - Commitments

Fundraising

In October 2006, the SPCAI entered into a 10-year agreement with a direct mail service provider ("DM") to administer its fundraising and marketing activities. Services covered under this agreement include, the production of direct mail awareness and educational materials, organization development, and processing of cash receipts. In addition, the DM incurred startup costs on behalf of the SPCAI. The SPCAI is obligated to reimburse the DM for all costs incurred on behalf of the SPCAI. As of May 31, 2018, the contract is self-renewing for one year terms barring cancellation of the contract by either party.

Rental

In September 2016, the SPCAI entered into a rental agreement for office space in New York City, NY. The lease agreement expires on December 31, 2021. In addition, the SPCAI subsequently entered into a rental agreement for office space in Seattle, WA, in May 2019. The lease agreement expires on April 30, 2021. The future minimum lease payments are as follows:

<u>Years Ending December 31:</u>	
2019	\$ 60,917
2020	62,744
2021	64,627
	\$ 188,288

For both years ended December 31, 2018 and 2017, rent expense approximated \$59,000.

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Note 8 - Available Resources and Liquidity

The SPCAI regularly monitors liquidity required to meet its operating needs and other contractual commitments. The following reflects the SPCAI's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations.

Cash and cash equivalents	\$ 1,020,511
Accounts receivable	53,883
Current assets, excluding non-financial assets	<u>1,074,394</u>
Less: Donor restrictions for specific purposes	<u>264,868</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u><u>\$ 809,526</u></u>

Note 9 - Subsequent Events

The SPCAI has evaluated all events or transactions that occurred after December 31, 2018 through June 10, 2019, the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure, other than that disclosed in Note 7.